Concentra FINANCIAL®

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Economic Update

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Highlights

- North American economies show signs of life heading into 2010, with the hint of a recovery upon us.
- However, some factors continue to threaten a full recovery, as auto sales and housing starts remaining 1/3 and 1/2 below long term norms respectively.
- Bank credit remains tight, with commercial real estate still in disarray as commercial mortgage defaults hit their 16 year high south of the border.
- Central banks continue to support their pledge to hold targets rates flat until the second half of 2010.
- Barack Obama has called for limiting the size and trading activities of financial institutions as a way to reduce risk-taking and prevent another financial crisis.
- Commodities retrace some of their gains realized in the start of 2010, with gold currently trading at $1,103 and oil falling from its highs to trade at $76.
- The Canadian dollar outlook continues to remain strong, with parity in sight.

Bank of Canada

- Overnight rate 0.25%
- Last: Jan 19, hold
- Next: Mar 2, hold *forecast*

U.S. Federal Reserve

- Federal funds rate 0%-0.25%
- Last: Dec 16 , hold
- Next: Jan 27, hold *forecast*

2010: A Fresh Outlook for North America

Fresh into 2010, many economists believe the economic recovery is finally taking root. This time last year, financial systems around the globe looked like they could collapse, with the world economy, entering what was referred to as the worst global recession in history. The U.S. was on the brink of facing a relapse of the great depression, while Canada was threatened that the turmoil would steamroll over the great white north. Stock markets were in free-fall, with U.S. equities headed for their worst decade in two centuries. However, there were a multitude of aggressive policy actions, put forth by governments, in order to steady the financial system and stimulate private demand. Many of which, we are starting to see take form and steady the turbulence.

The U.S. housing market, which appeared to be the center of the crisis, is steadily improving on the back of the home buyer tax credit and attractive affordability, as existing homes sales rose at their second fastest rate in four decades. Homes prices have stabilized, with housing starts showing new signs of life and contributing to overall GDP growth. Aggressive cost cutting and rapid productivity gains, in the U.S., have boosted profits, allowing firms to increase output and staff. As a result, U.S. job losses have slowed, and an upturn in temporary employment, flags the longest employment slump since 1939 may be ending. Furthermore, improved equity markets and auto sales have contributed to consumer confidence, with the cash-for-clunkers initiative at the forefront. This, coupled with strengthening exports, shows early indications that U.S. GDP grew at an accelerated 3.7% in the fourth quarter of 2009.

Canada's economy also showed signs of life in the fall, with strong domestic demand met largely by foreign producers. Domestic demand steadied, with personal consumption up 3% and capital investment by companies, up for the first time in six quarters. Even the housing market has retraced last year's slump, as Canadians were lured by record low mortgage rates, regardless of the recession being in full swing. Additionally, despite the strength in the Canadian dollar, exports rose the most in five years, in response to an upswing in global demand. Employment has also moved forward, suggesting the unemployment rate may peak around 8.5%, in line with the 30 year mean. As a result, GDP has experienced its first consecutive gain since late 2007, with fourth quarter results pointing towards a growth rate of close to 3.5%, its largest gain in over two and a half years.

Although, all signs point towards a full recovery, some factors continue to remain a hindrance on growth. The level of activity, though picking up, remains weak with U.S. auto sales still 30% below long term averages and new home sales at one half. Commercial real estate, although stable in Canada, remains in disarray south of the border, and Bank credit continues to remain tight.

However, despite these few factors that continue to linger throughout North America, the chance of the economy slipping back into recession is very low. All in all, Canadian quarterly GDP growth should stay above 3% through 2010, with a relatively subdued, yet positive growth rate of 2.6% in the U.S. over 2010.

Canada's 50 Best Managed Companies

CANADIAN ECONOMIC RELEASES

Trends

Employment; Unemployment rate	Dec –2.6k; 8.5%	Nov 79.1k; 8.5%	Oct –43.2k; 8.6%
Headline; Core CPI (annualized)	Dec -0.3%; 1.5%	Nov 0.4%; 1.5%	Oct 0.1%; 1.8%
Housing starts (annual units; monthly change)	Dec 174.5k; 10.1%	Nov 158.5k; 0.7%	Oct 157.3k; 5.4%
Real GDP (quarter to quarter change)	Q3-2009 +0.4%	Q2-2009 –3.4%	Q1-2009 –6.1%

Employment fell by 2,600 positions in December, following a near 80,000 position gain recorded in November. The unexpected job loss in December was led by a fall off in the transportation and public administration industries, keeping the jobless rate close to its highest levels in more than a decade. The unemployment rate remained unchanged at 8.5%, close to its 11 1/2 year high of 8.7% recorded in August. The country has lost 239,700 jobs last year, the first decline since 1992, and 323,400 jobs since employment peaked in October of 2008. This year over year decline was led by a close to 280,000 jobs loss in the goods purchasing industries. Prime Minster, Steven Harper, continued to reiterate that job creation will be the most important indicator of an economic recovery.

Consumer prices indicated that inflation accelerated less that economists expected last month, staying below the central bank's target, due to lower costs for mortgage interest, natural gas and clothing. Prices rose 1.3% in December from a year ago, and fell 0.3% from November. Mark Carney, the Governor of the Bank of Canada indicated that he will keep the target bank rate at historically low levels as "considerable excess supply remains" and inflation won't return to policy makers 2% target until the third quarter of next year. Prices of natural gas dropped 31% in December from a year prior, while mortgage interest costs fell 4.9%. Clothing and footwear costs also contributed to the overall downturn, falling 0.8%. The rise in inflation from a year earlier, was led by a 26% jump in gasoline costs.

Housing starts increased to the highest level this year in December as builders began work on more single-family homes, as reported by the CMHC. Starts rose to a seasonally adjusted annual pace of 174,500 as compared to 158,500 units in November, their third consecutive monthly gain. Cheaper borrowing costs have continue to spark growing demand for homes, helping the country's economy recover from its first recession in 17 years.

Manufacturing shipments advanced 0.1% in November to $42.6 billion, as factory sales rose less than expected, with energy and chemicals gaining while transportation shipments declined. Canada's strong currency and weak U.S. demand may slow the country's recovery from recession, as the Canadian dollar has increased 21% against its U.S. counterpart over the past year, making exports far less competitive. Sales were 10% weaker than a year earlier even with the gain in sales in November, which was the fifth gain in six months.

Retail sales declined 0.3% in November to $35.2 billion, after rising for three consecutive months. A contributing factor was lower winter clothing sales as a result of unseasonably warm weather throughout most of Canada. After removing the effects of price changes, particularly in higher gasoline prices, retail sales in volume terms decreased 1.0% in November; its first decline since April of 2009. Sales declined in five of the eight retail store sectors, led by a 3.6% decrease in clothing and accessories, a 6.8% decline at jewelry stores and a fall off of 2.8% in sales at general merchandisers.

Real GDP grew at a 0.4% annualized rate as the Canadian economy grew in the third quarter, a significant improvement after three consecutive quarterly declines. Consumer spending provided a strong support to real GDP which reflected a surge in purchases of autos, which supported a 9.8% annualized gain in spending on durable goods. Government and fixed investment also rose, further supporting the gains recorded by real GDP. Although GDP has moved into positive territory, the modest gain comes short of the Bank of Canada's 2.0% expectation.

U.S. ECONOMIC RELEASES

Trends

Employment; Unemployment Rate	Dec –85k; 10.0%	Nov –11k; 10.0%	Oct –190k; 10.2%
Headline; Core CPI (annualized)	Dec 2.7%; 1.8%	Nov 1.8%; 1.7%	Oct –0.2%; 1.7%
Housing starts (annual units; monthly change)	Dec 557k; -4.0%	Nov 574k; 8.9%	Oct 529k; -11.0%
Real GDP (quarter to quarter change)	Q3-2009 +2.8%	Q2-2009 –0.7%	Q1-2009 –6.4%

Non-farm payrolls unexpectedly lost 85,000 jobs in December, supporting the Federal Reserves forecasts that a labour market recovery will take time, making it more likely interest rates will stay near zero for the next six months. Payrolls fell last month after a revision shoed a gain of 4,000 in November, the first in almost two years. The jobless rate continues to remain high at 10.0%. While job cuts have slowed, companies are holding back on hiring as they gauge the strength of the economic recovery and contend with tight credit.

Consumer price inflation rose 2.7% from a month prior as production rose for a sixth consecutive month, consumers gained confidence and price increasers slowed, indicating the recovery is being sustained into 2010 without generating unsustainable levels of inflation. Output climbed 0.6% in December for a second month, while the cost of living increased 0.1 percent from a month earlier and sentiment reached a four month high in January. The increase in the consumer price index of 0.1% followed a 0.4% gain in November. Excluding food and energy costs, the core index also increased 0.1%. Consumer price pressures remain very subdued and gives the Fed further leeway to keep its target rate low until well into 2010.

Housing starts fell in December, as builders broke ground on 17,000 less homes than the previous month. Work began on houses at a 557,000 pace, down 4.0% from a month earlier. However, building permits unexpectedly jumped in December, signalling gains in housing will be sustained into 2010 after winter weather depressed construction at the end of 2009. Applications rose 11% last month to an annual rate of 653,000 which was the largest increase experienced in this market since October of 2008. Builders are anticipating sales will increase after the government extended a tax credit for first time buyers through June and expanded it to include some current owners.

The **ISM (Institute of Supply Management) Index** expanded in December for the fifth consecutive month, rising to 55.9%, its highest reading since April 2006 when it registered 56%. (Readings greater than 50% signal expansion.) The report was quite strong as both the new orders and production index's were above 60%. The sector may be benefiting from an excessive destocking cycle as indicated by the recent performance of the customers inventory index. Overall, the recovery in manufacturing is continuing, but there are still some industries stuck in the downturn.

Retail sales unexpectedly fell in December, following a bigger gain that previously estimated the prior month, highlighting the rist that the largest part of the economy will be slow to recover. The 0.3% decrease came after a 1.8% jump in November. A jobless rate projected to average 10%, tight credit and depressed home values, indicate a halting improvement in consumer spending, which accounts for more than 70% of the economy.

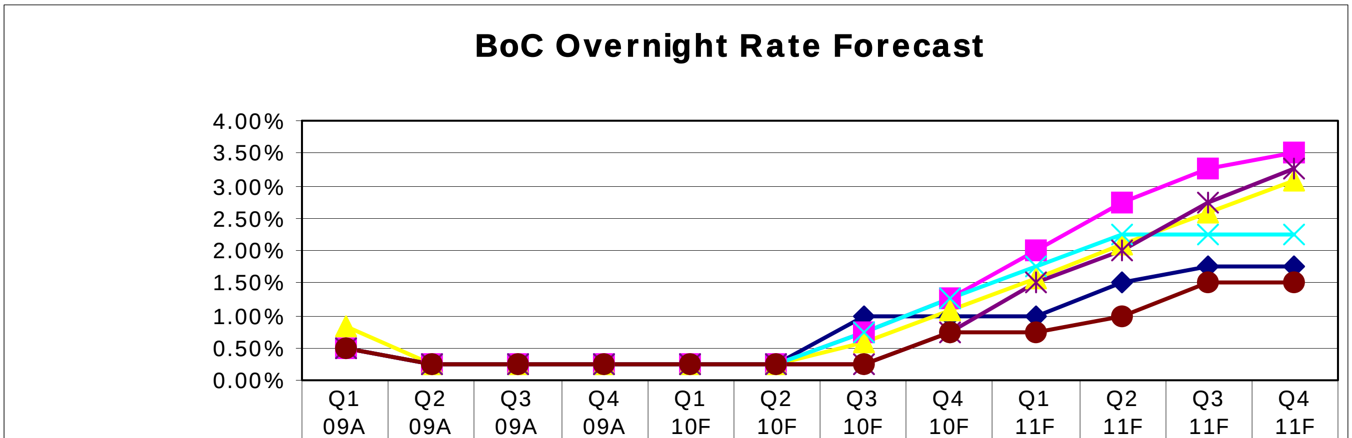
Real GDP resulted in the economy expanding 2.8% annualized in the third quarter, less than government's expectations, reflecting a smaller gain in consumer spending and a larger trade deficit. Smaller increases in spending show that the economy was dependant on government stimulus programs to help dig the world's largest economy out of recession. Growing profits lifted purchases of equipment and software, indicating investment by companies will help make up for smaller gains in household purchases as unemployment remains relatively high.

GLOBAL MARKET

The **Eurozone** (16 nation) experienced an unexpected increase in unemployment, reaching 10% and its highest level in more than 11 years, as companies cut costs in the wake of the worst recession in more than six decades. European companies are cutting jobs and paring wages to shore up earnings battered by the global slump. While economic confidence has risen to a level last seen before the 2008 fall out, a surge in energy costs and a stronger Euro threaten to dampen the economy in 2010. However, Q3 2009, the Euro economy returned to growth after governments spent billions on stimulus programs to bolster spending. Still, corporate investment fell 0.8%, and consumer spending dropped 0.1%. The European Central Bank last month kept borrowing costs at a record low and said it will exit some unconventional measures as the recovery progresses.

China's stronger than anticipated economic rebound in the fourth quarter may make it harder for government to achieve one of their main goals for 2010: convincing the public that consumer prices won't surge. Inflation accelerated to a more than forecasts 1.9% in December and GDP climbed 10.7%. Since October, policy makers have said managing inflation expectations is one of the governments central objectives. The impression that strong inflation is back clearly matters to officials seeking to dampen rising inflation expectations. Policy makers will likely act sooner than previously anticipated to contain prices. China's quarterly growth has been accelerating, reaching its fastest pace since 2007, shielding the nation from the global recession and adding pressure to rein in a surge in credit. Q4 economic growth was driven by a $586 billion stimulus package, subsidies for consumer purchases and a credit fueled investment boom. The property market has also rebounded and a 13 month slump in exports has ended. For 2009, GDP gained 8.7%, beating governments target of 8.0%.

BANK OF CANADA EXPECTATIONS

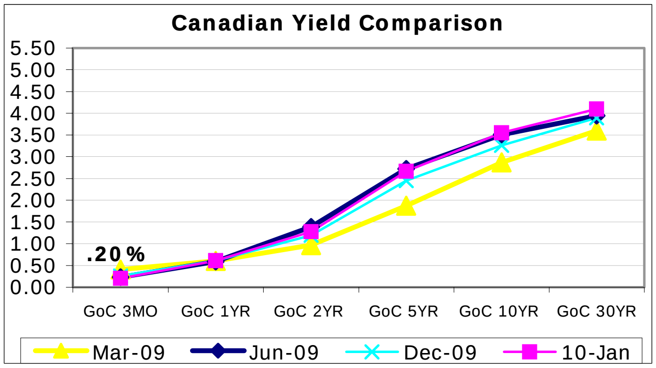


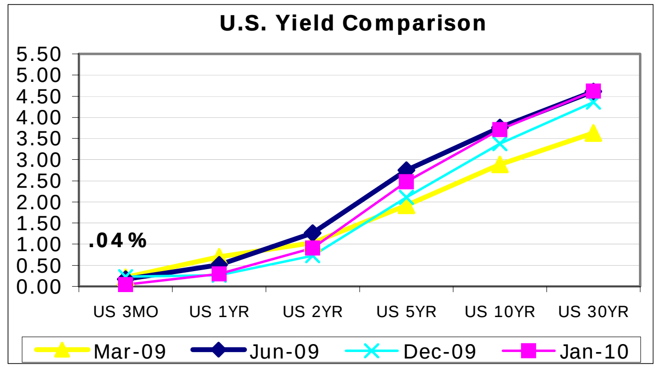
	Q1 09A	Q2 09A	Q3 09A	Q4 09A	Q1 10F	Q2 10F	Q3 10F	Q4 10F	Q1 11F	Q2 11F	Q3 11F	Q4 11F
CIBC (Jan 14)	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	1.00%	1.00%	1.00%	1.50%	1.75%	1.75%
RBC (Jan 8)	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	1.25%	2.00%	2.75%	3.25%	3.50%
BMO (Jan 22)	0.83%	0.25%	0.25%	0.25%	0.25%	0.25%	0.58%	1.08%	1.58%	2.08%	2.58%	3.08%
BNS (Jan 8)	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	1.25%	1.75%	2.25%	2.25%	2.25%
TD (Jan 13)	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	1.50%	2.00%	2.75%	3.25%
Concentra (Jan 12)	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	0.75%	1.00%	1.50%	1.50%

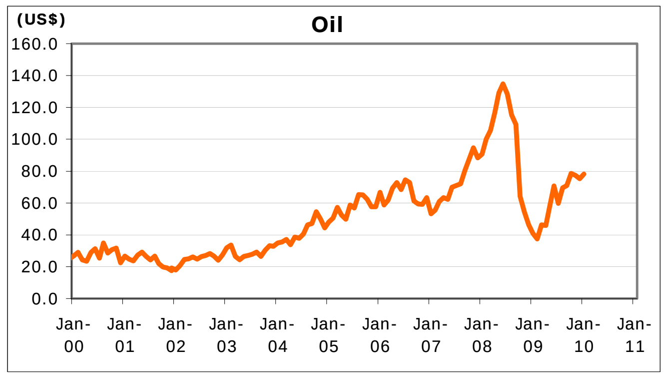
Forecasts have now been extended to 2011, with more dramatic increases being built into projections. Overall, the trend remains that rates will be on hold until the third quarter of 2010, with a more pronounced turnaround expected in 2011. RBC, once again, remains the most aggressive in terms of the turn around, with a 1.50% hike built to span Q1 and Q2 2011.

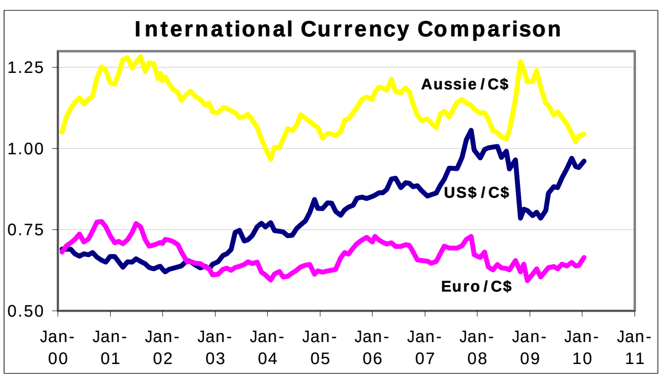
Note: BMO averages the quarterly rate reductions, versus stating it at a particular point in time.

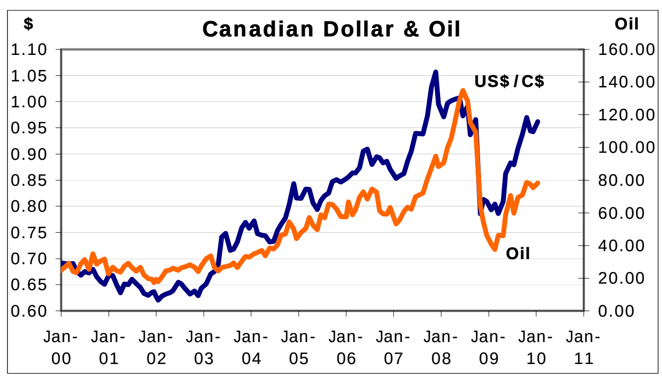
MARKET TRENDS

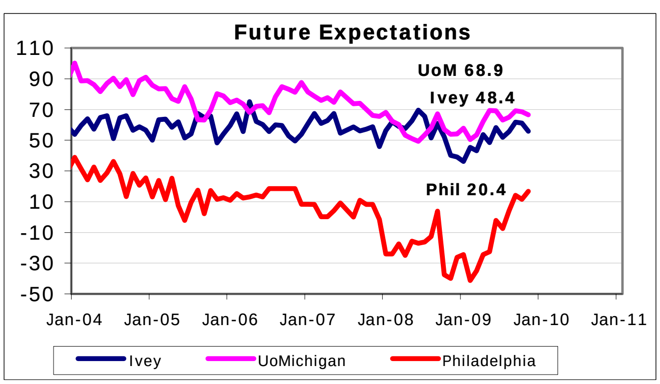


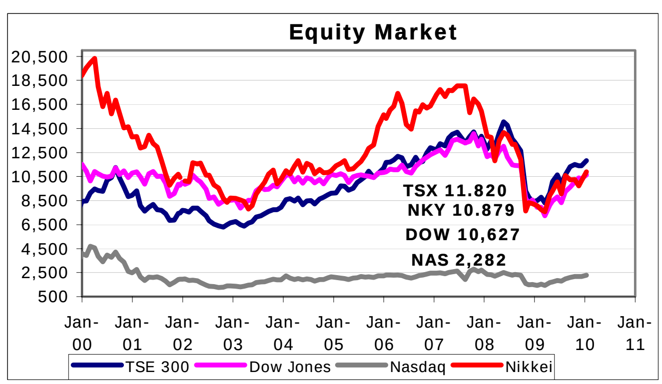












PROVINCIAL HIGHLIGHTS

	Employment December			Unemployment December			CPI (2002=100) December		
	Value (Thousands)	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)
Canada	16,900.0	0.0	-1.4	8.5	0.0	1.9	114.8	-0.3	1.3
British Columbia	2,266.4	0.0	-1.6	8.4	0.1	3.1	111.9	-0.4	0.4
Alberta	1,993.9	0.7	-1.4	6.7	-0.7	2.5	121.9	-0.6	0.6
Saskatchewan	521.8	0.4	0.3	4.8	-0.4	0.6	117.1	-0.4	1.1
Manitoba	604.0	-0.8	-0.8	5.7	0.4	1.4	114.2	-0.4	1.1
Ontario	6,523.6	-0.3	-2.1	9.3	0.0	2.1	114.1	-0.4	1.2
Quebec	3,857.5	0.2	-0.7	8.4	0.3	1.1	114.0	-0.3	2.1
New Brunswick	364.2	-1.0	-0.7	8.9	0.1	0.3	114.5	-0.5	3.0
Nova Scotia	452.0	-0.6	-0.3	9.6	0.1	1.4	116.3	-0.6	2.6
Newfoundland	217.0	0.8	-0.2	15.7	-0.2	2.0	115.2	-0.3	1.9
P.E.I	71.1	0.1	2.7	10.7	-1.0	-1.0	118.1	-0.8	3.0

	Retail Trade November (SA, $ millions)			Manufacturing Shipments October (SA, $ millions)			Housing Starts December (SAAR, thousands of units)		
	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)
Canada	35,246.9	-0.3	1.2	42,500.0	2.0	-16.6	174.5	5.9	1.3
British Columbia	4,678.7	0.6	2.9	2,794.0	0.8	-16.6	20.8	7.8	-10.0
Alberta	4,611.4	-0.8	-6.7	4,562.2	0.5	-23.8	27.4	5.4	37.0
Saskatchewan	1,178.6	-1.1	-1.7	866.4	-12.6	-15.2	4.2	-32.3	-10.6
Manitoba	1,274.6	-0.2	1.9	1,185.7	-0.9	-16.6	3.8	-13.6	-40.6
Ontario	12,623.1	-0.4	2.3	19,659.6	0.5	-14.8	56.0	2.8	-11.3
Quebec	8,072.3	-0.3	2.5	11,060.5	7.3	-14.8	49.7	15.6	13.0
New Brunswick	840.0	-1.0	4.1	1,052.4	9.2	-30.0	3.9	-2.5	30.0
Nova Scotia	1,058.9	0.8	7.3	782.3	-0.5	-16.6	3.5	9.4	16.7
Newfoundland	629.4	-0.7	6.2	412.2	-6.5	-21.3	4.0	21.2	0.0
P.E.I	145.9	0.9	1.5	113.9	1.3	-11.8	1.3	30.0	44.4